

# **Auditor's report**

Thabo Mofutsanyane District Municipality

30 June 2014

# **REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE THABO MOFUTSANYANA DISTRICT MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Thabo Mofutsanyana District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets and cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act no. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act no. 2 of 2013)(DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Thabo Mofutsanyana District Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.



### **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Significant uncertainty**

8. With reference to note 27 to the financial statements, the municipality is the defendant in a levy rate lawsuit. The municipality has appealed against the first ruling which was in favour of the levy payers. The ultimate outcome of the matter cannot presently be determined and the receivables from non-exchange transactions amounting to R49 079 862, as disclosed in note 5 to the financial statements, have been impaired accordingly.

### **Restatement of corresponding figures**

9. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during 2013-14 in the financial statements of the Thabo Mofutsanyana District Municipality at, and for the year ended, 30 June 2013.

### **Additional matter**

10. I draw attention to the matter below. My opinion is not modified in respect of this matter:

### **Unaudited disclosure notes**

11. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

12. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### **Predetermined objectives**

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:
  - KPA 2. Basic Service Delivery (Infrastructure Directorate): Development priority - Water on page x
  - KPA 2. Basic Service Delivery (Infrastructure Directorate): Development priority – Roads, Streets & Stormwater on page x
  - KPA 2. Basic Service Delivery (Infrastructure Directorate): Development priority – Sanitation on page x

- KPA 2. Basic Service Delivery (Infrastructure Directorate): Development priority – Housing on page x
  - KPA 2. Basic Service Delivery (Infrastructure Directorate): Development priority – Electricity on page x
  - KPA 2. Basic Service Delivery (Infrastructure Directorate): Development priority – Transport on page x
  - KPA 3.1 Local Economic Development Directorate: Development priority – LED on page x
  - KPA 3.2 Community services Directorate: Development priority - Municipal Health & Environmental Management Services on page x
14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPi).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected development priorities.

#### **Additional matters**

18. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected development priorities, I draw attention to the following matters:

#### **Achievement of planned targets**

19. Refer to the annual performance report on pages xx to xx for information on the achievement of the planned targets for the year.

#### **Adjustment of material misstatements**

20. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for KPA 3.2 Community services Directorate: Development priority - Municipal Health & Environmental Management Services, KPA 3.1 Local Economic Development Directorate: Development priority – LED, KPA 2 Basic Service Delivery (Infrastructure Directorate): Development priority – Electricity, KPA 2 Basic Service Delivery (Infrastructure Directorate): Development priority – Housing, KPA 2 Basic Service Delivery (Infrastructure Directorate): Development priority – Sanitation, KPA 2 Basic Service Delivery (Infrastructure Directorate): Development priority – Roads, Streets & Storm water and KPA 2 Basic Service Delivery (Infrastructure Directorate): Development priority – Water. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.



### **Unaudited supplementary information**

21. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

### **Compliance with legislation**

22. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### **Audit committee**

23. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by Municipal planning and performance management regulation 14(4)(a)(ii).
24. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal planning and performance management regulation 14(4)(a)(iii).

### **Human Resource Management**

25. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Regulations on Minimum Competency Levels reg14(2)(a).

### **Annual financial statements, performance and annual report**

26. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### **Internal control**

27. I considered internal control relevant to my audit of the financial statements, annual performance information report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on non-compliance with legislation included in this report.

### **Leadership**

28. Management did not adequately exercise oversight responsibility regarding financial and performance reporting and compliance with laws and regulations, as well as related internal controls, due to a shortage of skilled resources.
29. Management did not implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored, due to a lack of consequence for non-compliance.

### **Financial and performance management**

30. Management did not regularly review and monitor compliance with laws and regulations, due to monitoring process not being reviewed. As a result, significant non-compliance matters were noted that could have been prevented.
31. Effective financial and performance systems, processes and procedures and the management thereof have not been adequately monitored and implemented. This resulted in the financial statements being subject to material adjustments. The errors that were subsequently corrected with regard to actual performance reported in the annual performance report resulted from a shortage of skilled staff.

### **Governance**

32. The performance audit committee or another committee functioning as the performance audit committee did not fulfil its function adequately in terms of reporting to council and reviewing the performance management system due to a shortage of skilled resources in the internal audit function to review the performance management system...

*AUDITOR - GENERAL*

Bloemfontein

30 November 2014



AUDITOR - GENERAL  
SOUTH AFRICA

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